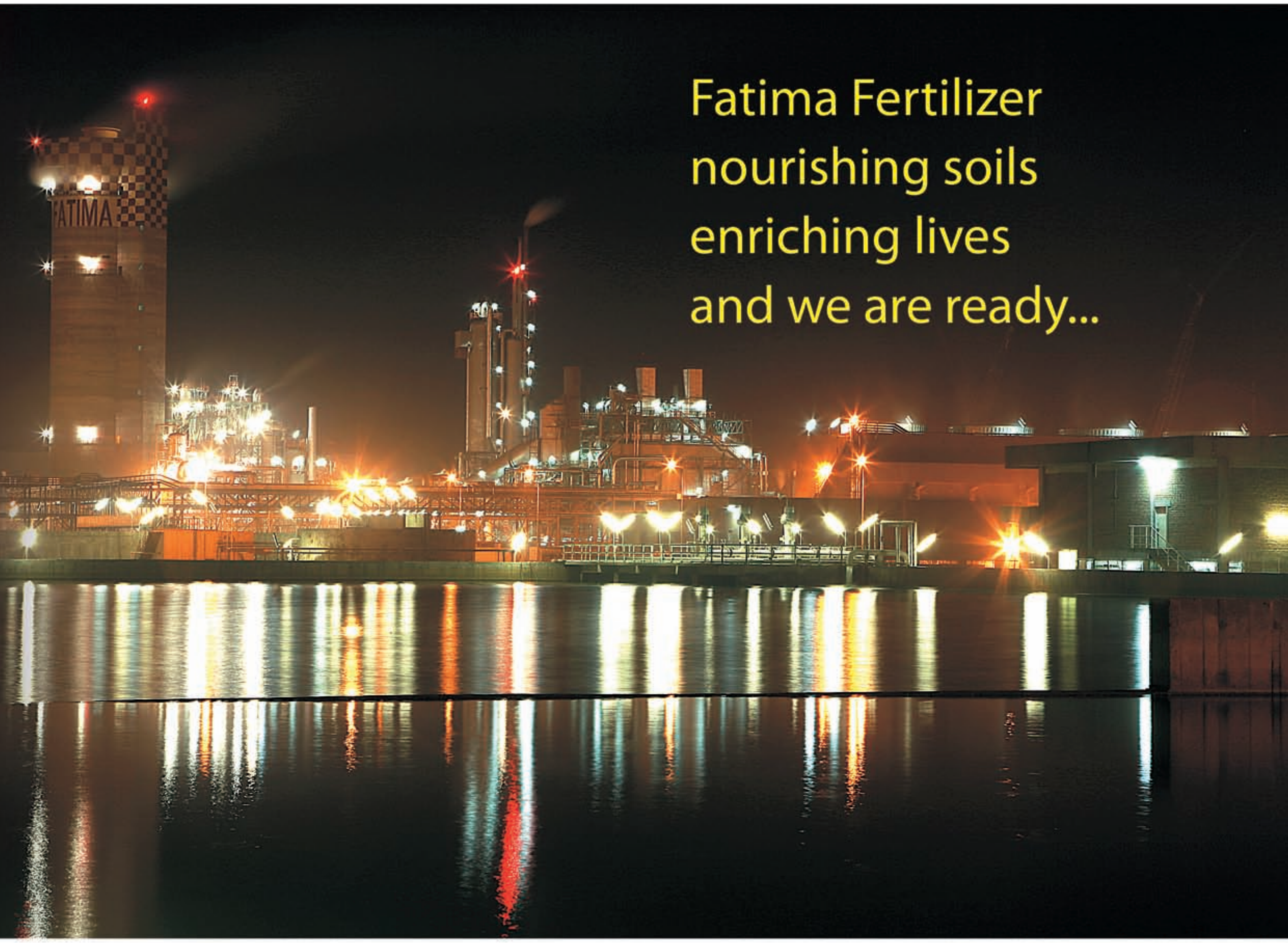
Annual Report of Fatima Fertilizer Company Limited for the year ended December 31, 2009



ARIF HABIB GROUP

Fatima Group

Contents

Vision

To be a world class manufacturer of fertilizers, with a focus on safety and quality and contribute to the national growth and development, while caring for the environment and the community we work in and continue to create shareholders' value

Mission

To be the preferred fertilizer company for farmers, business associates and suppliers, provide an exciting and supportive environment for employees to excel, be innovative and entrepreneurial in an ethical and safe working place based on meritocracy and equal opportunity

Corporate Information

BOARD OF DIRECTORS

Mr. Muhammad Arif Habib
Chairman

Mr. Fawad Ahmed Mukhtar
Chief Executive Officer

Mr. Fazal Ahmed Sheikh
Mr. Faisal Ahmed Mukhtar
Mr. Muhammad Kashif
Mr. M. Abad Khan
Mr. M. Nasir Butt
Mr. Masood Karim Shaikh

KEY MANAGEMENT

Mr. Arif-ur-Rehman
Project Director

Mr. Muhammad Zahir
Director Marketing

Mr. Iftikhar Mahmood Baig
Chief Financial Officer & Company Secretary

Mr. Tanvir H. Qureshi
Group Head Human Resource

Brig (Retd.) Abid Abaidullah
Resident General Manager

AUDIT COMMITTEE

Mr. Muhammad Kashif
Chairman

Mr. Fazal Ahmed Sheikh
Member

Mr. M. Abad Khan
Member

LEGAL ADVISORS

M/s. Chima & Ibrahim
Advocates
1-A/ 245, Tufail Road
Lahore Cantt.

AUDITORS

A.F.Ferguson & Co.
Chartered Accountants,
Lahore.

SHARES REGISTRAR

THK Associates (Pvt) Limited
Ground Floor, State Life Building-3,
Dr. Ziauddin Ahmed Road,
Karachi - 75530.
Tel: No. 92-21-111-000-322
Fax: No. 92-21-35655595

BANKERS

Askari Bank Limited
Arif Habib Bank Limited
Allied Bank Limited
Bank Alfalah Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Meezan Bank Limited
MCB Bank Limited
National Bank of Pakistan Limited
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Limited
Saudi Pak Commercial Bank Limited
The Royal Bank of Scotland Limited
United Bank Limited

REGISTERED OFFICE

2nd Floor, Trust Plaza, L.M.Q. Road,
Multan.
Tel: 061-4512031
Fax: 061-4511677, 4584288
E-mail: mail@fatima-group.com

LAHORE OFFICE

E-110, New Super Town,
Main Boulevard, Defence Road,
Lahore Cantt.
UAN: 111FATIMA
Fax: 042-36621389, 042-36621390

PLANT SITE

Mukhtar Garh, Sadiqabad,
Distt. Rahim Yar Khan,
Pakistan.
Tel: 068-5786910
Fax: 068-5786909

Board of Directors

Mr. Muhamad Arif Habib
Chairman

Mr. Muhammad Arif Habib is the Chairman of Fatima Fertilizer Company Limited. He is also the Chairman of Pakarab Fertlizers Limited, Arif Habib Bank Limited, Arif Habib Securities Limited, Thatta Cement Company Limited and Arif Habib DMCC Dubai.

Mr. Arif Habib holds a Degree in Commerce from Karachi University and is a Fellow member of the Institute of Chartered Secretaries and Managers of Pakistan.

Mr. Arif Habib has remained the President / Chairman of the Karachi Stock Exchange six times in the past. He is the Founding Member and Former Chairman of the Central Depository Company of Pakistan Limited. He has served as a Member of the Privatization Commission, Board of Investment, Tariff Reforms Commission and Securities & Exchange Ordinance Review Committee.

As the President of the Karachi Stock Exchange, he introduced a number of reforms including the establishment of central depository system, introduction of computerized trading and risk management system at Karachi Stock Exchange.

He has participated in a number of professional advancement courses including courses on Development of Securities Market organized by the SEC, USA at Washington, D.C. in 1992. He visited over a dozen of stock exchanges in different countries for exchange of views.

On the social services front, Mr. Arif Habib has made significant contributions to welfare activities of different organizations. To quote a few, he is one of the trustees of Fatmid Foundation and Memon Health & Education Foundation and Director of the Pakistan Centre for Philanthropy and Memon Medical Centre.

Mr. Fawad Ahmed Mukhtar
Chief Executive Officer

Mr. Fawad Ahmed Mukhtar is the Chief Executive Officer (Director & CEO) of the Company. He has a rich experience of manufacturing and industrial management. He received his Bachelors Degree from Government College, Multan (BZU). He is also the Director of Pakarab Fertilizers Limited, Fazal Cloth Mills Limited, Reliance Weaving Mills Limited, Fatima Sugar Mills Limited, Reliance Commodities (Private) Limited, Farrukh Trading Company (Private) Limited, Fatima Energy Limited, Fatima Trading Company (Private) Limited, Air One (Private) Limited.

Mr. Muhammad Kashif

Mr. Muhammad Kashif is a Director of the Company. He has completed C.A. Intermediate from the Institute of Chartered Accountants of Pakistan (ICAP) and has completed his mandatory Articles with M/s. A.F. Ferguson & Co. Chartered Accountants. He is also a Director of Pakarab Fertilizers Limited, Arif Habib Securities Limited, Arif Habib Investments Limited, Nooriabad Spinning Mills (Pvt) Limited, Thatta Cement Company Limited, Javedan Cement Limited, Rotocast Engineering (Pvt) Limited, Real Estate Modaraba Management Company Limited.

Mr. Fazal Ahmed Sheikh
Executive Director

Mr. Fazal Ahmed Sheikh is a Director of the Company. He holds a Bachelor Degree in Economics from the University of Michigan, USA. He is also a Director of Pakarab Fertilizers Limited, Fazal Cloth Mills Limited, Reliance Weaving Mills Limited, Fatima Sugar Mills Limited, Reliance Commodities (Private) Limited, Fatima Energy Limited, Fatima Trading Company (Private) Limited, Air One (Private) Limited.

Mr. Faisal Ahmed Mukhtar

Mr. Faisal Ahmed Mukhtar is a Director of the Company. He holds a Bachelor of Law Degree from Bahauddin Zakariya University, Multan. He is also a Director of Pakarab Fertilizers Limited, Fatima Sugar Mills Limited, Reliance Weaving Mills Limited, Fazal Cloth Mills Limited, Reliance Commodities (Private) Limited and Air One (Private) Limited.

Mr. M. Abad Khan

Mr. M. Abad Khan is a Director of the Company. He is a graduate from University of Engineering and Technology. He has an experience of a lifetime having worked for major fertilizer Companies in Pakistan like Exxon Chemical Pakistan Ltd., Fauji Fertilizer Co. and Fauji Fertilizer Bin Qasim Ltd. He has received extensive training and participated in many seminars and symposiums in technical and managerial fields abroad.

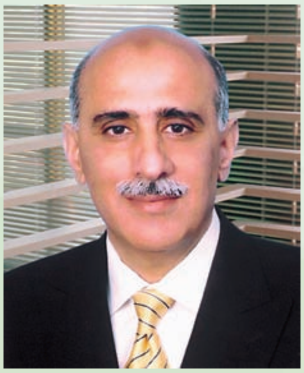
Mr. M. Nasir Butt

Mr. M. Nasir Butt is a Director of the Company. He is a graduate from University of Engineering and Technology and is a senior fertilizer industry professional. He served as Managing Director of Pakarab Fertilizers Limited for nearly six years before privatization and worked as the Managing Director, Pak-American Fertilizer Limited, for 3 years. He has received extensive training from abroad in the field of fertilizer.

Key Management

Mr. Arif ur Rehman
Project Director

Mr. Arif Ur Rehman is a chemical engineer and has over 26 years of experience in the fertilizer and petrochemical industries. He has been part of a number of successful projects from construction to commissioning and normal operation. These include Fauji Fertilizer plant in Goth Macchi, Fauji Fertilizer Bin Qasim and ICI, PTA Bin Qasim plants. He held various middle and senior level management positions before joining Fatima Fertilizer Company Limited in April 2007. He has had extensive foreign job assignments and has gone through numerous international technical and management trainings.



Muhammad Zahir
Director Marketing

Mr. Muhammad Zahir holds a Master's degree in Business Administration from the Institute of Business Administration, Karachi. He spent twenty nine years with ICI Pakistan working in its various businesses and the Human Resource Function. He served as an Executive Director on the Board of ICI Pakistan. He has diverse experience in businesses including Paints, Polyester Fiber, Chemicals, Agrochemicals, Pharmaceuticals, Seeds and Animal Health.

Iftikhar Mahmood Baig
CFO & Company Secretary

Mr. Iftikhar Mahmood Baig is Chief Financial Officer & Company Secretary since incorporation of the Company. He completed his C.A. Intermediate from Institute of Chartered Accountants of Pakistan in 1986 and completed his Articles with M/s. Hameed Chaudri & Co. Chartered Accountants from 1983-86. He has over 23 years experience in Corporate, Strategic & Financial Management of Companies. He is a member of Institute of Chartered Secretaries and Managers of Pakistan. Mr. Baig is associated with the Fatima Group since 1996 and held various middle and senior level management positions and is now also working as GM Corporate & Business Development of the Group, responsible for Government Relations.

Tanvir H. Qureshi
Group Head Human Resource

Mr. Tanvir H. Qureshi has over 22 years of professional experience in pharmaceutical, banking and fertilizer industries, in the fields of Human Resource, Finance, Economics and Corporate & Strategic Planning. He worked at Bankers Equity Ltd and Muller & Phipps Pakistan (Pvt) Ltd, prior to joining the Fatima Group. He did his Masters in Business dministration from Institute of Business Administration, Karachi, and Masters in Economics and LLB form the University of Karachi. He joined the Group in early 2009.

Brig(Retd.) Abid Abaidullah
Resident General Manager

Brig (Retd.) Abid Abaidullah is the Resident General Manager of Fatima Fertilizer Company Limited. He was commissioned in The Pakistan Army in 1968 and is a graduate of Command & Staff College Quetta. During his military career, he held important command, staff (Intelligence, operations & administrative) and instructional appointments at various levels. As a Brigadier, he commanded an Infantry Brigade and served as Director Army Sports, Director Regulations and Director Infantry at GHQ. In his civil career, he served as Divisional Superintendant, Mughalpura Railway Workshop, and Resident Manager Fauji Fertilizer Company Limited before joining Fatima Fertilizer.


Competence - the basis of our success
History - the basis for new endeavors
Growth - is our vision
Rajput

Policy Statement of Ethics and Business Practices

Fatima Fertilizer conducts its business affairs in an ethical manner with full compliance of all the laws and regulations. In conducting its business, professionalism and integrity take precedence in all relationships, including those with customers and suppliers, and among the employees.

All employees, while performing their business activities comply with the applicable laws and regulations and meet the highest standards of ethical business conduct. Employees, on their part ensure that their conduct or activities uphold the reputation of the Company.

Fatima Fertilizer conducts its business in such a way that it is recognized as a good and law abiding citizen. All applicable standards of ethics and morality are adhered to in maintaining a high standard of a good corporate citizen.

Ethics Compliance

All employees have a responsibility to maintain business ethics and good reputation of the Company and adhere to the national laws and Company's Code of Ethics and Business Conduct. Employees have equal responsibility to maintain a professional work environment with mutual trust and respect, of which employees and all Fatima's stakeholders can be proud of.

Business Accounting Practices

The shareholders, employees, customers, suppliers and other stakeholders of Fatima Fertilizer and the government rely upon the integrity of accounting and business records. These records are regularly updated and are complete and accurate.

Conflict of Interest

Employees are obligated to act in accordance with the Company's Code of Ethics and Business Conduct, which clearly spells out a policy on conflict of interest. Employees are made aware of their conduct while managing business affairs, so that a situation of conflict of interest does not arise.

While dealing with vendors, suppliers and business associates, employees are not allowed to be obligated to any organization or individual with whom the Company does business. The Company does not permit inappropriate gifts, extravagant entertainment, etc. which would otherwise influence the employee's actions towards a particular organization or individual.

Health, Safety and Environment

The Company is committed to protecting the environment, and to provide a safe and healthy workplace for employees and general public. Company handles and

disposes off its industrial waste and hazardous materials properly. It is mandatory for employees to be familiar and comply with the HSE Policy.

Fair Employment Practices

The Company is committed to equal employment opportunity and a work environment that recognizes and respects employees' contribution and diversity. It is a continuing policy of Fatima to provide equal employment opportunity to qualified individuals, regardless of their religion, sex, sect, etc. In general, Fatima does not discriminate between its employees and treats all with respect and dignity.

Political Contribution and Political Activity

The Company does not contribute or subscribe to the ideology of any political party and as such does not indulge, directly or indirectly, in contributions of any nature. Fatima expects from its employees to keep their political affiliation away from its business.

Protection of Company Assets

All facilities, equipment, real estate and other assets have been acquired through hard work and with the investment of all the stakeholders. Fatima expects its employees to protect these assets from any loss, avoid misappropriation, and follow security rules.

Protecting Proprietary Information

All employees are expected to know what information is Fatima's proprietary and do not disclose to any unauthorized persons. Also, employees are expected to avoid any unauthorized disclosures. Former employees also remain obligated to protect Fatima's proprietary information.

Suppliers Relations

In conducting business with suppliers, employees are expected to act fairly and objectively and in the best interest of Fatima at all times. Customary business meals, gifts or entertainment may be received or given so long as they are associated with a business purpose and are reasonable in value.

Notice of Annual General Meeting

Notice is hereby given that the Seventh Annual General Meeting of the Members of FATIMA FERTILIZER COMPANY LIMITED will be held on April 30, 2010 at 03:00 P.M at its Registered Office, 2nd Floor Trust Plaza, L.M.Q. Road Multan, to transact the following business:

Ordinary Business:

1. To confirm the minutes of the Extra Ordinary General Meeting held on November 26, 2009.
2. To receive, consider and adopt the Audited Accounts of the Company together with the Auditors' and Directors' Reports thereon for the year ended December 31, 2009.
3. To appoint Auditors for the year ending December 31, 2010 and to fix their remuneration. The retiring Auditors M/s A.F. Ferguson & Co. Chartered Accountants, offer themselves for re-appointment after the Company has obtained approval from Securities and Exchange Commission of Pakistan under listing regulations. On the proposal of some of the members, the Board Audit Committee and the Board of Directors have recommended to appoint Auditors from the following:

   - KPMG Taseer Hadi & Co. Chartered Accountants
   - M. Yousuf Adil Saleem & Co. Chartered Accountants
   - Ford Rhodes Sidat Hyder & Co. Chartered Accountants
   - A.F. Ferguson & Co. Chartered Accountants

Special Business:

4. To consider and, if thought fit, to pass the following resolution as Special Resolution, with or without modification(s), approving the recommendation of the Board of Directors to place first, second and third quarter accounts of the company on its website instead of circulating the same by post to the shareholders in compliance with the provisions of Section 245 of the Companies Ordinance, 1984 and Securities & Exchange Commission of Pakistan (SECP) Circular No. 19 of 2004, dated April 14, 2004.

"Resolved that the company be and is hereby authorized to place quarterly accounts on its website instead of sending the same to members by post, pursuant to the SECP Circular No. 19 of 2004, dated April 14, 2004."

"Further Resolved that the Chief Executive/any Director/Company Secretary singly be and is hereby authorized to complete all procedural formalities for placement of Quarterly Accounts on Company's website."

Other Business:

5. To transact any other business with the permission of the Chair.

By order of the Board

Iftikhar Mahmood Baig
Company Secretary

MULTAN: April 9, 2010.

Notes:

1. The Share Transfer Books of the Company will remain closed for 7 days from 24th to 30th April 2010 (both days inclusive).
2. Any member eligible to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote instead of him/her.
3. Proxies in order to be effective must be received by the Company at the Registered Office not later than 48 hours before the time for holding meeting.
4. Shareholders who have deposited their shares into Central Depository Company of Pakistan Limited under Central Depository System (CDS) must bring their original National Identity Card (NIC) or Original Passport along with their account number in CDS at the time of attending the meeting. If proxies are granted by such shareholders the same must be accompanied with attested copies of the NIC or the Passport of the beneficial owners. Representatives of corporate members should bring the usual documents required for such purpose.

5. Shareholders are requested to immediately notify the change of their address, if any.

STATEMENT OF MATERIAL FACTS U/S 160(1)(B) OF THE COMPANIES ORDINANCE 1984

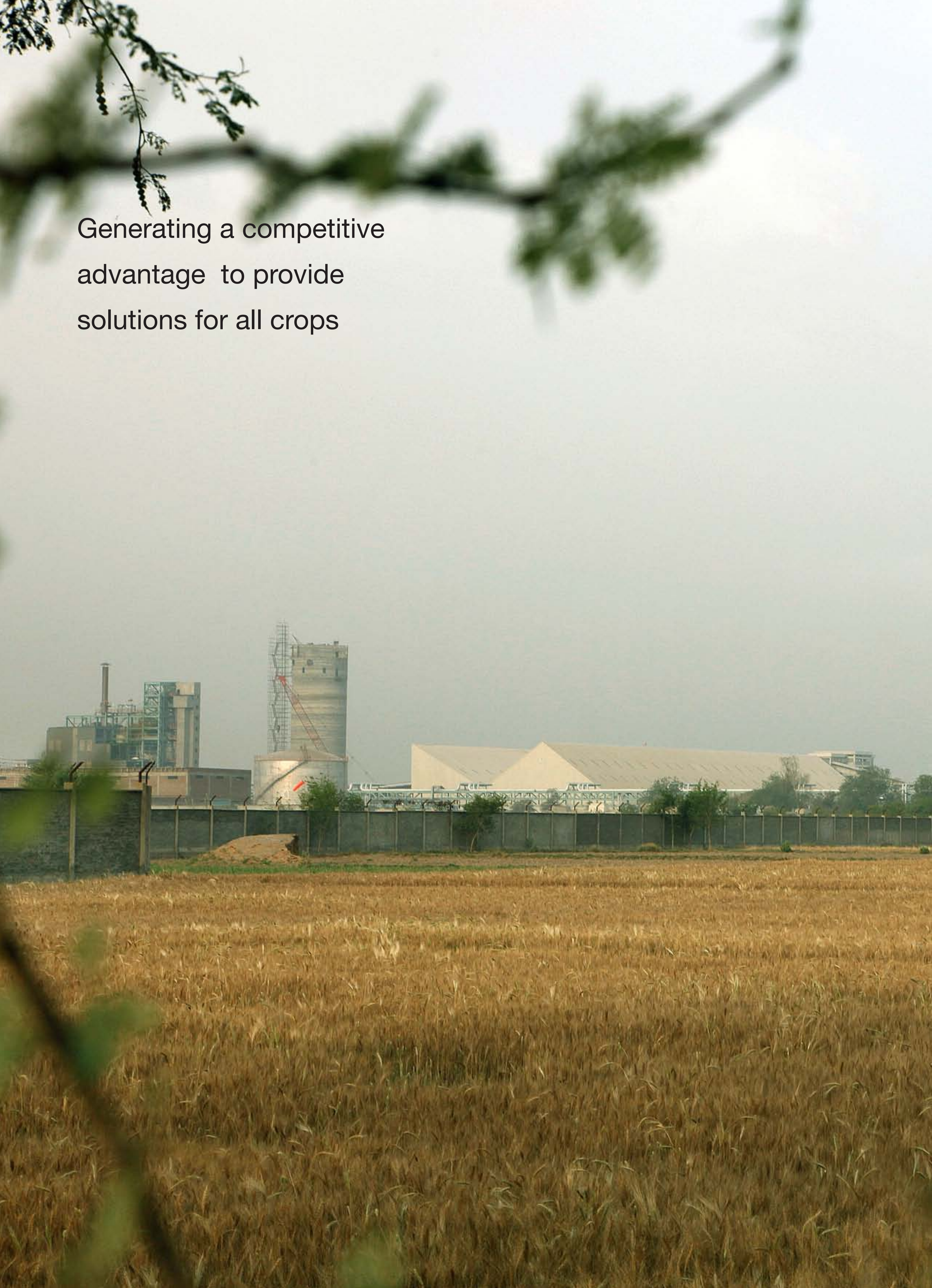
Agenda Item No. 4:

The Securities and Exchange Commission of Pakistan vide its Circular No. 19 of April 14, 2004 has allowed all listed companies to place first, second and third quarter accounts on company's website instead of sending the same to shareholders at their registered addresses. The decision of the Commission is intended to ensure timely availability of information to all shareholders. As a procedure, the company has to seek approval of its shareholders to get permission of SECP for placement of quarterly accounts on its website. However, the company will send the printed copy of the report to shareholder, within seven days of his request.

The Directors of the Company have no interest in the above special resolution, save to the extent of their shareholding in the Company.


From dreams to reality,
from dust and sand
to the largest fertilizer
manufacturing complex

Generating a competitive
advantage to provide
solutions for all crops




emony for Fatima Fertilizer Complex in Pakistan with CNCEC

Our stepping stones to success...

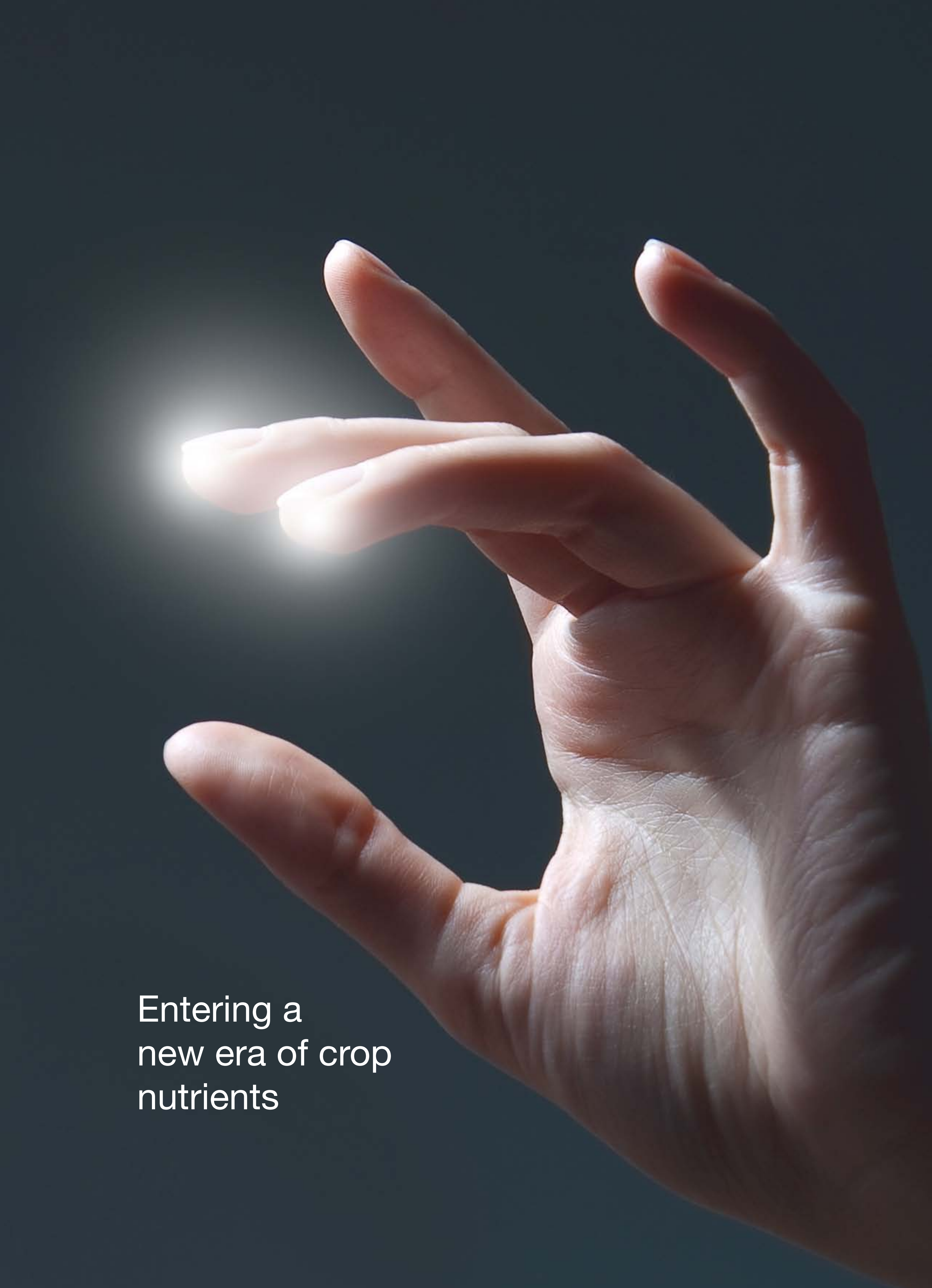
- Fatima Group and Arif Habib Group joined hands to create Synergies from their strong credentials and presence in the corporate environment for establishing Fatima Fertilizer.
- 110 MMCFD Gas allocation for the project under Fertilizer Policy, 2001 by Government of Pakistan from Mari Shallow Reservoir.
- Public offering of the Company was over subscribed by four times, thus providing confidence to all stakeholders.

- The project was completed safely and successfully, depicting strong commitment to health, safety and environment standards of the Company.
- Compliant with environmental standards of the Country.

Leaving no stone unturned at your largest fertilizer manufacturing complex

47 km gas pipeline was laid by SNGPL from Mari Gas Field to Plant site

Ammonia Plant



Entering a new era of crop nutrients

Nitric Acid

The balanced crop nutrition portfolio of Fatima Fertilizer comprises one of Pakistan's most unique offering in the Fertilizer sector, capable of supplying Nitrogenous and Phosphatic based essential crop nutrients

Calcium Ammonium Nitrate (CAN)

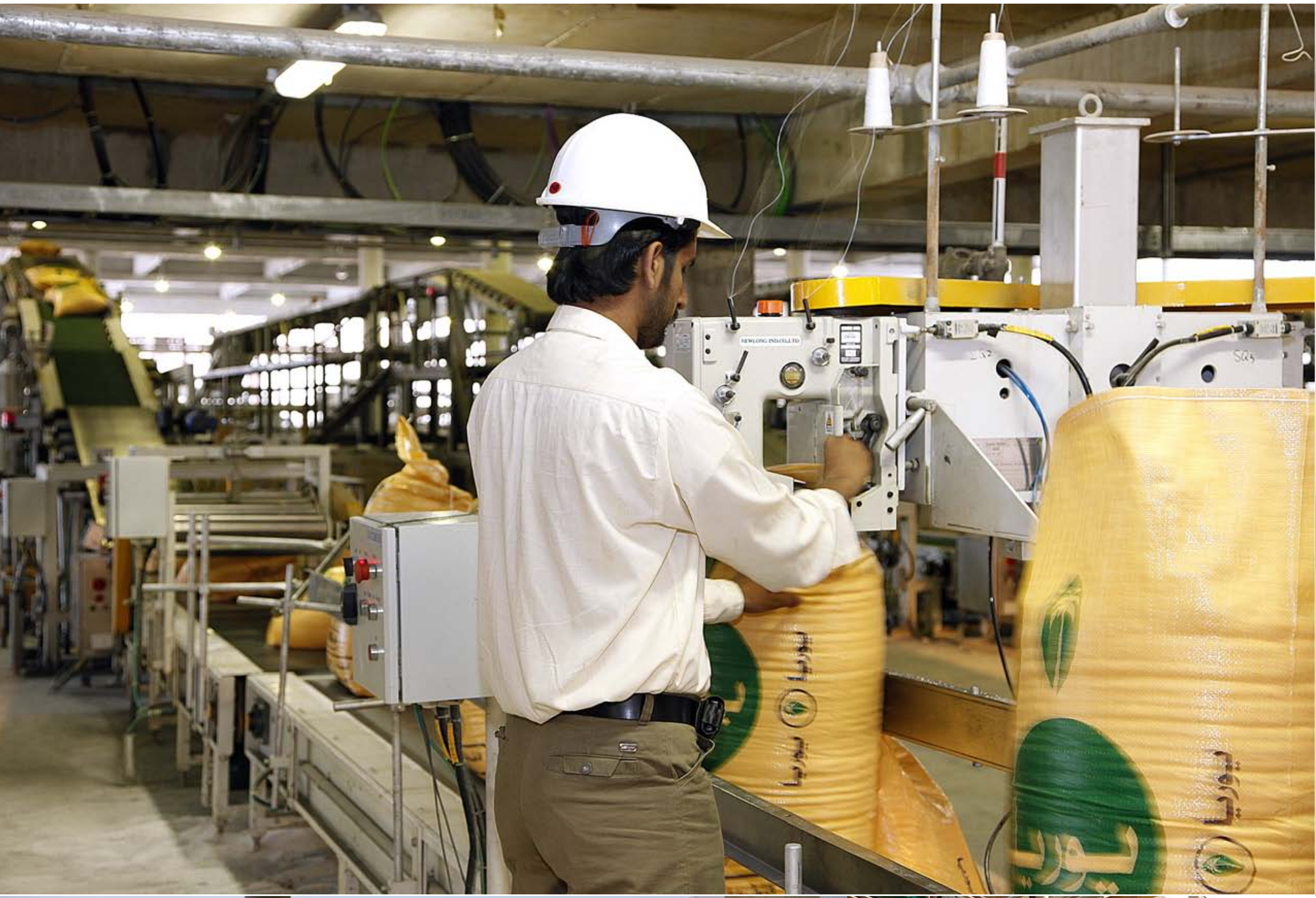
Fatima Fertilizer aims at providing soil nutrients for crops, targeting increase in yields and farmers' prosperity

Urea Plant

The Link Between Prosperity & Protein

We are pursuing a strategic path to ensure that we have the capacity to meet the growing demand for our crop nutrients by ensuring sustained supply of balanced fertilizers through indigenous resources.

Product Handling & Storage



Workshop & Laboratory

Commitment to Quality

Fatima is committed to delivering quality in products and services. We will produce to specifications and our teams will focus on continuous improvement in all our spheres of operations to ensure customer needs are met.

Health Safety & Environment

Health, Safety and Environment

Fatima Fertilizer is committed to protecting the environment, and to provide safe and healthy workplace for employees and general public. Company handles and disposes off its industrial waste and hazardous materials properly. It is mandatory for employees to be familiar and comply with the HSE Policy.

Directors' Report to the Members

On behalf of the Board of Directors of Fatima Fertilizer Company Limited, I am pleased to present its First Annual Report after listing on the Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited, together with audited accounts of the Company for the year ended December 31, 2009.

Results for the year

Your company was in the project phase during the year 2009 therefore, there was no production during the year. The Company's results for the year ended December 31, 2009 showed a loss of Rs. 97.121 Million which consisted of head office and other expenses not directly attributable to plant cost and charged to Profit and Loss Account. The cost attributable to plant cost has been classified in Capital Work in Progress.

Start of Production

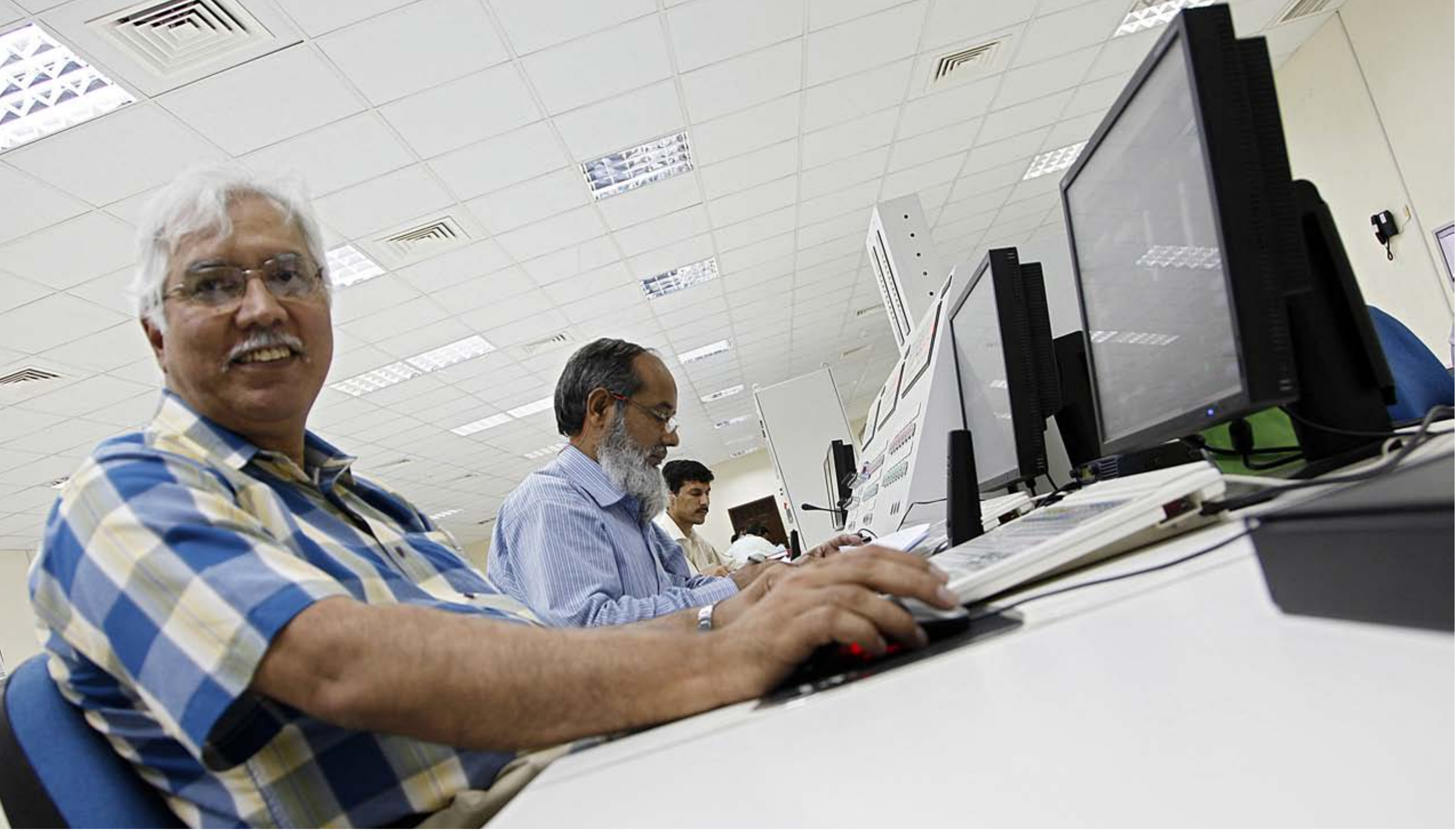
Alhamdolillah, with the blessing of ALLAH ALMIGHTY, and the relentless efforts of our team, the Complex has achieved smooth and stable production of Calcium Ammonium Nitrate (CAN), Ammonia and Urea.

Nitric Acid plant is expected to start production shortly. NP and NPK plants are expected to commence production in December 2010.

Project Highlights

The company started construction of a greenfield project in Mukhtar Garh, Sadiqabad during the last quarter of the year 2006 with the production capacity of 1.58 Million tons of fertilizers.

Implementation of this Project will ensure monthly supply of 40,000 tons, approximately, of Urea and will substitute import of heavily subsidized fertilizer with local manufacturing, saving foreign exchange and reduction in the import subsidy burden on the exchequer.



Land

The project is housed on 947 acres of land, at the plant site Mukhtar Garh, Sadiqabad.

Allocation of Gas

The Natural Gas of 110 MMCFD has been allocated to the complex by the Government of Pakistan from Shallow Reservoir of Mari Gas Company Limited. A gas pipeline of 47 KM has been laid by SNGPL from Mari Gas field to Fatima Fertilizer site.

Project Cost

Description	*PKR million*	*% of total*
Land	340	1%
Building and structures	4,188	7%
Plant, Machinery and Equipment	43,812	74%
Railways & Gas Pipelines	881	1%
Interest during construction	7,350	12%
Others	2,667	5%
Total	**59,238**	**100%**

Project Financing

Description	*PKR million*	*% of total*
Sponsors equity	24,238	41%
General public equity	2,000	3%
Debt	33,000	56%
Total	**59,238**	**100%**

Our decisions today will position Fatima Fertilizer for tomorrow, to capitalize on an increasingly positive outlook for agriculture and the crop nutrients business

Plant and Machinery

The project consists of the following plant and machinery:

Description	Design Capacity (MTPA)	Technology/Licensor/ Manufacturer/Supplier
Intermediary Product		
Ammonia	500,000	Kellogg, UK. Sojitz Corporation, Japan.
Nitric Acid	500,000	UHDE, Germany.
Final Product		
Urea	500,000	Stamicarbon/Kawasaki/Sojitz Corporation, Japan.
CAN	420,000	UHDE, Germany.
NP	360,000	CFIh, France.
NPK	420,000	CNCEC, China. CFIh, France.
Offsite and Utilities		
Power Plant	56 MW	GE Oil & Gas, Italy.
Heat Recovery Steam Generator	2X75 t/h	Del Tek, China.
Cooling Tower	53,000 m3/h	SPIG S.P.A. Piazza, Italy.
Electrical and Instrumentation		Descon, Pakistan. Yokogawa, Japan.
Engineering Services		Kawasaki Plant System, Japan.

Fertilizer Marketing

The strategy to strengthen our position as the nitrogen specialists in Pakistan has taken a significant step forward. With the addition of NPK to the product portfolio, we will achieve our objective to be the only fertilizer manufacturer offering balanced soil nutrition. Our target consumer, the farmer, will benefit not only in terms of improved quality of products with Fatima Fertilizer launching granular CAN and the finest Urea prill, but this nitrogen ,phosphorous and potash blend in the right proportions will ensure timely replenishment. The farmer and our business partners will have the added convenience of having all their fertilizer requirements met from one source.

Fatima's marketing and sales strategy will benefit from the existing marketing and distribution structures at Pakarab. The combined operations will be able to leverage our channel and warehousing network while we augment and revamp our organization to deliver differentiating customer focus. With volumes anticipated to more than double the company will look to expanding the network with the sole objective of making fertilizer more accessible to the ordinary farmer and reduce his route to buying. The fillip side of the coin is intensive farmer education to increase usage of the special nutrients in the cropping cycle by highlighting the positive impact of our product portfolio for all crops at their various stages and for all soils. Increased focus on the farmer and the dealer network will aim to build loyalty with both the consumer and customer. The synergies by integrating the marketing operations of the two entities will ultimately strengthen the company's market position.

The business has devised a clear strategy to bring about a qualitative and quantitative increase in its technical competency. The target going forward is that the company will leverage its new state of the art laboratory and steadily expand its capability to provide farmers with comprehensive solutions on soil, crop and nutrition management.

Supply-demand outlook

Country	Wheat	Cotton	Rice	Maize	Sugr cane
				Average yield (Kg/hetare)	
World	2,720	1,788	3,916	4,343	65,802
India	2,770	753	2,915	1,705	68,049
China	3,885	3,978	6,266	5,022	66,802
Eqypt	6,006	2,654			119,838
Mexico	5,151			2,437	74,746
France	7,449			9,914	
Pakistan					
* National average	2,585	713	2,346	1,768	48,634
* Progressive farmer	4,500	2,890	4,580	7,455	106,700

Supply-demand outlook

Thousand Tons	2010E	2011E	2012E	2013E	2014E
Demand	7,606	8,214	8,707	9,230	9,783
Supply	6,934	8,889	8,889	8,889	8,889
Deficit	(672)	675	182	(341)	(894)

Health, Safety and Environment (HSE)

Fatima Fertilizer is committed to maintaining safe, healthy and clean environment for all the employees, visitors and community.

We comply with applicable standards, laws and regulations for Health, Safety and Environment (HSE) through Process Safety Management.

We dedicate ourselves for continuous improvement in HSE practices through effective communication, motivation, team work and training.

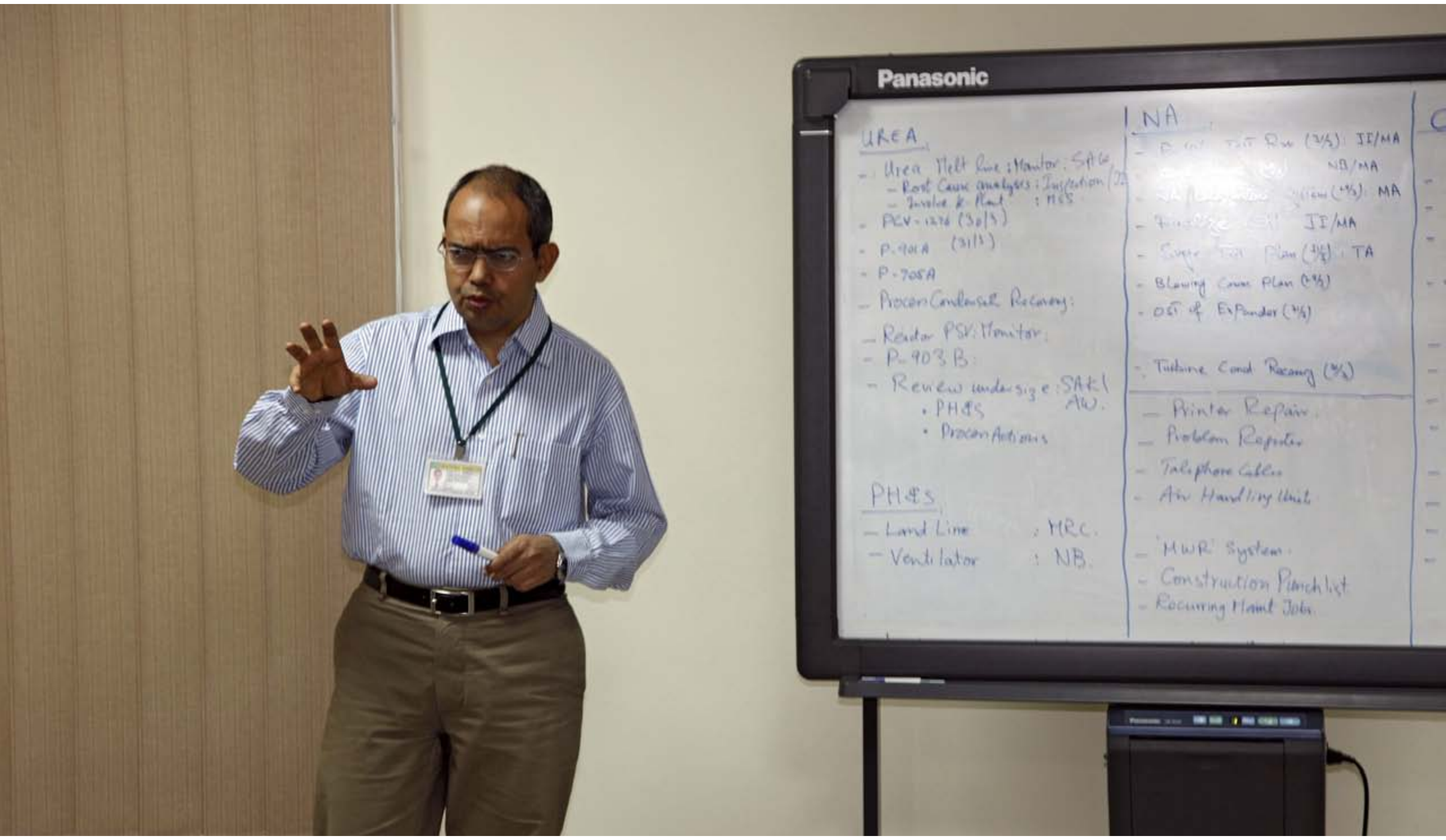
Your company ensured compliance of all environmental requirements and regulations to support environment protection. The Company obtained a license from Pakistan Environment Protection Authority (EPA). Effluent treatment plants have been installed for oily, sewer and process water to comply with National Environment Quality Standards. Clean Development Mechanism equipment has been installed at Nitric Acid plant for low NOx.

Clean Development Mechanism

The Management is endeavoring to get CDM Project of the Company registered with the United Nations for Carbon Credits to generate revenue from CERs. It is expected that about 1.3 Million CER's per annum will accrue from the start of the project up to 2020. Mitsubishi Corporation is assisting in implementation and registration of Fatima's CDM Project with the United Nations.
UHDE is providing technology and equipment and also helping with the implementation of Clean Development Mechanism (CDM) for Fatima Project.

Credit Rating

Pakistan Credit Rating Agency (PACRA) has done the first entity rating of the company during the year 2009. PACRA has awarded A and A1 as long term rating and short term rating respectively. The ratings reflect Fatima Fertilizer's potentially low business risk emanating from its entry into the fertilizer sector, mainly characterized by robust demand amidst domestic supply deficit.



Management Information System

Information Technology department (IT) of the company has a high efficiency data center with the best hardware & business applications deployed with disaster recovery, redundant data communication connections, environment controls and security devices. IT have established a mesh network with all sites by empowering the Domestic Private Leased Circuit (DPLC) and fiber optic technology. Additionally VOIP and video conferencing have been enriched by hi-tech exchange cluster Avaya servers. In future, IT targets are to “establish a competency center of Business Intelligence (BI)” & “build Oracle data warehouse for large scale DSS. Your company is implementing oracle R 12 modules for all business processes including Oracle financials, Oracle supply chain management, Oracle HRMS, Oracle manufacturing and Oracle enterprise assets management.

Corporate Social Responsibility

Your company is committed to act as a responsible Corporate Citizen and will continue its Social and Corporate commitments for the benefit of surrounding populations and people of Pakistan.

At Fatima, CSR revolves around a self-regulating mechanism and our business is monitored and adheres to the laws, ethical standards, and internal values.

Our business holds the responsibility for the impact of its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

During the year, the Company was committed to its resolve and has been acting as a good corporate and social citizen, in the following areas;

1. Company ensured ethics compliance by abiding with all related laws and regulations
2. Company has maintained the integrity of its business and accounting records, and these records are regularly updated and are complete and accurate
3. Company has a well defined code of ethics and business conduct and all employees and stakeholders ensure its compliance in letter and spirit
4. Company ensures the protection of environment for general public, besides safe and healthy workplace for its employees
5. Company provides equal employment opportunity to qualified individuals and does not discriminate. Employees are treated with respect and dignity
6. Company ensures strict compliance to ethics, while dealing with it suppliers and other business associates
7. Company ensures that learning process continues for its employees, through continuous training and development



Fatima Fertilizer Welfare Hospital

Fatima Fertilizer Welfare Hospital is a key project of company's vision towards community welfare.

Fatima Fertilizer Company under the guidance of Worthy Chief Minister and Secretary Health Punjab has undertaken to establish a modern welfare hospital in the vicinity of the plant site to cater for the needs of poor people of the area. This is the first ever initiative of its kind and magnitude in private sector.

Fatima Fertilizer Welfare Hospital will create an integrated health care facility to be recognised nationally and internationally as an example of best practices in following:

Trauma Care

Centre of Excellence for Hepatitis Treatment and Research.

Fatima Fertilizer Company has undertaken to donate an amount of Rs 300 Millions, first ever of this magnitude, for the construction of a general hospital to be managed by the Fatima Fertilizer Welfare Trust which has already been established.

It is foreseen that this hospital will cater for a specialized treatment of Hepatitis and eventually lead to a research centre specializing in hepatitis which is spreading fast in Pakistan in general and Sadiqabad and surroundings in particular.

A medical college is also forseen for which sources/ sponsors from abroad are expected to donate generously.

In order to run a state of the art hospital and a research centre, 50 Acres of land has been proposed near Fatima fertilizer plant site.

It will be convenient for the people of Southern Punjab, Upper Sindh and neighbouring districts of Balochistan to avail quality medical services at Mukhtar Garh, Sadiqabad.

Fatima Fertilizer welfare Hospital will focus on developing a state of the art centre for research, vaccination, diagnosis and treatment of hepatitis patients. Proper research will be conducted to identify modifiable risk factors to prevent further spread of the disease.

Human Resources Management

The Human Resource Management (HRM) plays a vital role to ensure that the organization is able to achieve success through people. The Company recognizes that human capital is an important element of the intangible assets and know-how, imagination and creativity of employees, are as critical to business as tangible assets.

During the year under review, the Company achieved all its operational land marks through its human resource.

Organization Development

The Company undertook significant initiatives that would enhance its internal processes and re-designed its organization structure. During the year under review, which was marked as project phase, HR contributed to its full potential and helped in creation of an organization which made this industrial endeavor possible.

HR was in the forefront of massive recruitment during the entire project phase. Various new departmental structures were created to stream line the operational processes at the plant site.

New HR Endeavors

1. **Performance Management System**

   The Company has adopted a new performance management system which is essential in improving organizational efficiency, by developing the performance of individuals and teams.

   The recently adopted performance management system covers the entire cycle of performance measurement. With the introduction of new performance management system it is assumed that now each and every employee of the Company will have a definite career path, will be better trained and equipped to add value to the business and improve return on investment, i.e., act as a business partner.

2. **Job Evaluation**

   The Company has undertaken a major initiative to adopt Hay's system of job evaluation and the exercise shall be completed in the first half of 2010. Job evaluation is of fundamental importance in reward management and provides the basis for achieving equitable pay and is essential as a means of dealing with equal pay for work of equal value.

3. **Policies and Procedures**

   HR policies, which serve as reference points when employment practices are being developed, have been important in decisions making about people. HR policies are being used at Fatima to provide guidance to managers in particular circumstances and facilitate empowerment, devolution and delegation.

   HR has undertaken a revamp of all major policies and procedures concerning the employees and that all new policies shall be in place in 2010.

4. **Training and Development**

   The Company believes and has invested heavily in its employees through continuous training and development. Learning is a continuous process that not only enhances existing capabilities but also leads to the development of skills, knowledge and attitudes that prepare employees for enlarged or higher-level responsibilities in the future. Throughout the year employees were provided, both in-house and outside trainings and development to acquaint them with the modern management concepts and equip them to take higher positions in the future.

   With the introduction of a modern HR function, it is believed that in the years to come this function will gain in strength the Company will be in a robust position of having fully trained and equipped managers who would succeed and take senior roles in the organization.

Fertile ground for growth

Corporate Affairs

Audit Committee

Pursuant to Code of Corporate Governance, the Board has established an Audit Committee comprising of three Directors as follows:

Mr. Muhammad Kashif
Chairman

Mr. Fazal Ahmed Sheikh
Member

Mr. M. Abad Khan
Member

Terms of Reference

The terms of reference of the Audit Committee have been drawn up and approved by the Board of Directors in compliance with the Code of Corporate Governance. The terms of reference of Audit Committee also include the following:

a. determination of appropriate measures to safeguard the Company's assets;

b. review of preliminary announcements of results prior to publication;

c. review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors, focusing on:
   - major judgmental areas;
   - significant adjustments resulting from the audit;
   - the going-concern assumption;
   - any changes in accounting policies and practices;
   - compliance with applicable accounting standards; and

d. compliance with listing regulations and other statutory and regulatory requirements;

e. facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);

f. review of management letter issued by external auditors and management's response thereto;

g. ensuring coordination between the internal and external auditors of the Company;

h. review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;

i. consideration of major findings of internal investigations and management's response thereto;

j. ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;

k. review of the Company's statement on internal control systems prior to endorsement by the Board of Directors;

l. instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;

m. determination of compliance with relevant statutory requirements;

n. monitoring compliance with the best practices of corporate governance and identification of significant violations thereof; and

o. consideration of any other issue or matter as may be assigned by the Board of Directors.

Directors

The Board expresses its appreciation for the services rendered by the outgoing Director, Mr. Abdus Samad and welcomes Mr. Muhammad Kashif on the Board.

Board Meetings

During the year under review, five meetings of the Board of Directors were held. The attendance of the Board members was as follows:

Name of Director	*Meetings Attended*
Mr. Muhammad Arif Habib	5
Mr. Fawad Ahmed Mukhtar	5
Mr. Fazal Ahmed Sheikh	5
Mr. Faisal Ahmed Mukhtar	4
Mr. Abdus Samad	5
Mr. Muhammad Kashif	-
Mr. M. Abad Khan	4
Mr. M. Nasir Butt	4

The leave of absence was granted to the members not attending the Board meetings.

Shareholding

The pattern of the shareholding as at December 31, 2009 as required by Section 236 of the Companies Ordinance 1984 is annexed hereto.

Auditors

M/s. A. F. Ferguson & Co. Chartered Accountants, Lahore, retiring auditors of the Company, offer themselves for re-appointment after the Company has obtained approval from Securities and Exchange Commission of Pakistan

under listing regulations. On the proposal of some of the members, the Board Audit Committee and the Board of Directors have recommended to appoint Auditors for the year ending December 31, 2010 from the following:

- KPMG Taseer Hadi & Co. Chartered Accountants
- M. Yousuf Adil Saleem & Co. Chartered Accountants
- Ford Rhodes Sidat Hyder & Co. Chartered Accountants
- A.F. Ferguson & Co. Chartered Accountants

Future outlook

Fatima Fertilizer has a bright future and can look forward to a reasonable growth in volume and return for its investors. There is an ever increasing deman of fertilizer in the domestic market especially considering the fact that Fatima will provide, when the entire complex is ready, a one window solution for the farmers with its four different fertilizers and balanced nutrients. While revamping the Ammonia Plant, provision was made for further increase in production in future with very little investment. Other plants have similar potential. It was conceived to treat the Nitric Acid effluents through a process before release under the provision of United Nations (UN) Kyoto Protocol of Clean Development Mechanism (CDM) and earn credits which are marketable.

Commitment

We stand fully committed to the Government and people of Pakistan to ensure sustained supply of fertilizers to the farming community and contribution towards industrialization and prosperity of Pakistan.

Acknowledgements

We are thankful to the Government of Pakistan for continued support towards smooth implementation of the first environment friendly, state of the art, greenfield fertilizer manufacturing Complex under Fertilizer Policy, 2001 at a cost of Rs. 59 billion for achieving overall objective of increasing domestic capacity of fertilizer production.

Your Directors wish to place on record their appreciation for the assistance and cooperation that your Company received from the Financial Institutions, Commercial Banks, Stakeholders and all others whose continued support has been a source of strength to the Company. The Directors also wish to place on record their sincere appreciation for the devotion and commitment of every employee of the Company.

For and on behalf of Board

Multan
April 09, 2010

Muhammad Arif Habib
Chairman

Entity Ratings

Long Term **A**

'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may nevertheless be more vulnerable to changes in circumstances or in economic condition than is the case for higher ratings.

Short Term **A1**

A1 Obligations supported by strong capacity for timely repayment.

Pattern of Shareholding as at 31 December 2009

Desclosure Requirement under the Code of Corporate Governance

Details of holding on 31.12.2009:		Shares held
1.	**Associated Companies, Undertakings and Related Parties**	
	Pakarab Fertilizers Limited	900,000,000
	Reliance Weaving Mills Limited	17,968,135
	Reliance Commodities (Pvt) Limited	150,731,084
	Fazal Cloth Mills Limited	34,387,480
	Fatima Sugar Mills Limited	139,570,865
	Arif Habib Securities Limited	180,000,000
2.	**NIT & ICP**	**-**
3.	**Directors & CEO (including holding of their spouses & minor children)**	
	Muhammad Arif Habib - Chairman	67,494,837
	Fawad Ahmed Mukhtar - CEO	47,629,028
	Fazal Ahmed Shekih	58,422,920
	Faisal Ahmed Mukhtar	58,422,920
	M. Nasir Butt	5,000
	Abdus Samad	5,000
	M. Abad Khan	5,000
	Mrs. Zetun Arif	52,500,162
	Mrs. Ambreen Fawad	4,769,882
	Ali Mukhtar	5,373,907
	Abbas Mukhtar	5,373,907
	Miss Meraj Fatima	5,373,907
	Asad Muhammad Sheikh	7,735,809
	Muhammad Mukhtar Sheikh	7,735,809
	Ibrahim Mukhtar	5,157,206
	Mohid Muhammad Ahmed	5,157,206
	Muhammad Fazeel Mukhtar	5,157,206
4.	**Executives**	**-**
5.	**Public Sector Companies and Corporations**	**-**
6.	**Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds**	**-**
7.	**Shareholders holding ten percent or more voting interest**	
	Pakarab Fertilizers Limited	900,000,000
	Arif Habib Securities Limited	180,000,000

Pattern of Shareholding as at 31 December 2009

Shareholding From	To	No. of Shareholders	Total Shares held	Percentage
1	100	1	1	0.00
1,001	5,000	3	15,000	0.00
15,001	20,000	1	18,542	0.00
665,001	670,000	1	669,584	0.04
1,205,001	1,210,000	1	1,205,899	0.07
1,385,001	1,390,000	1	1,388,845	0.08
4,765,001	4,770,000	1	4,769,882	0.26
5,155,001	5,160,000	3	15,471,618	0.86
5,370,001	5,375,000	4	21,495,628	1.19
7,020,001	7,025,000	1	7,021,500	0.39
7,735,001	7,740,000	2	15,471,618	0.86
8,210,001	8,215,000	1	8,213,326	0.46
8,565,001	8,570,000	2	17,131,126	0.95
17,965,001	17,970,000	1	17,968,135	1.00
34,385,001	34,390,000	1	34,387,480	1.91
47,625,001	47,630,000	1	47,629,028	2.65
52,500,001	52,505,000	1	52,500,162	2.92
58,420,001	58,425,000	2	116,845,840	6.49
67,490,001	67,495,000	1	67,494,837	3.75
139,570,001	139,575,000	1	139,570,865	7.75
150,730,001	150,735,000	1	150,731,084	8.37
179,995,001	180,000,000	1	180,000,000	10.00
899,995,001	900,000,000	1	900,000,000	50.00
Total		**33**	**1,800,000,000**	**100.00**

PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2009
Category-Wise

Categories of Shareholders	Number of shareholders	Total shares held	Percentage
Individuals	27	377,342,436	21
Joint Stock Companies	6	1,422,657,564	79
Total	**33**	**1,800,000,000**	**100**

Financial Statements

Fatima Fertilizer Company Limited

for the year ended December 31, 2009

Auditors' Report To The Members

We have audited the annexed balance sheet of Fatima Fertilizer Company Limited as at December 31, 2009 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

- **(i)** the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes in accounting policies as stated in note 2.2.1 to the annexed financial statements with which we concur;

- **(ii)** the expenditure incurred during the year was for the purpose of the company's business; and

- **(iii)** the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs for the year ended December 31, 2009 and of the loss, total comprehensive loss, changes in equity and its cash flows for the year then ended; and

(d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

A.F. Ferguson & Co.
Chartered Accountants
Lahore: April 09, 2010
Engagement Partner: Muhammad Masood

Balance Sheet

as at December 31, 2009

	Note	2009	2008
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized capital			
2,100,000,000 (2008: 2,500,000,000) ordinary shares of Rs 10 each		21,000,000	25,000,000
400,000,000 (2008: Nil) preference shares of Rs 10 each		4,000,000	–
Issued, subscribed and paid up capital			
1,800,000,000 (2008: 893,478,833)			
ordinary shares of Rs 10 each	5	18,000,000	8,934,788
Share deposit money for ordinary shares		–	6,573,898
Hedging reserve		–	(10,056)
Accumulated loss		(257,212)	(153,286)
		17,742,788	15,345,344
NON–CURRENT LIABILITIES			
Advance against preference shares	6	3,898,250	–
Long term loans	7	30,846,063	18,750,401
Retirement benefits	8	54,493	31,875
Bills payable – secured		–	464,440
		34,798,806	19,246,716
CURRENT LIABILITIES			
Current maturity of long term loans		402,796	–
Derivative financial instruments		–	14,861
Trade and other payables	9	4,258,142	3,490,827
		4,660,938	3,505,688
CONTINGENCIES AND COMMITMENTS	10		
		57,202,532	38,097,748

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive

	Note	2009	2008
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	684,940	603,126
Capital work in progress			
– Civil works		2,069,443	1,441,106
– Plant and machinery		40,701,631	29,754,978
– Catalysts		606,717	-
– Un-allocated expenditure	12.1	10,228,925	3,848,956
– Advances	12.2	686,273	1,551,770
		54,292,989	36,596,810
Long term loans and deposits	13	8,150	5,399
		54,986,079	37,205,335
CURRENT ASSETS			
Stores and spares	14	1,142,798	2,405
Loans, advances, deposits, prepayments and other receivables	15	849,238	410,752
Cash and bank balances	16	224,417	479,256
		2,216,453	892,413
		57,202,532	38,097,748

Director

Profit and Loss Account

for the year ended December 31, 2009

	Note	2009	2008
		(Rupees in thousand)	
Administrative expenses	17	(96,205)	(57,908)
Finance costs	18	(7,494)	(86,343)
Other operating income	19	6,578	56
Loss before tax		(97,121)	(144,195)
Taxation		–	–
Loss after tax		(97,121)	(144,195)
Loss per share – Rupees	20	(0.08)	(0.17)

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive **Director**

Statement of Comprehensive Income

for the year ended December 31, 2009

	Note	2009	2008
		(Rupees in thousand)	
Loss after taxation		(97,121)	(144,195)
Other comprehensive income			
Effective portion of the gain arising on marked to market foreign currency forwards and options entered into as part of cash flow hedge for the purchase of plant and machinery		–	(10,056)
Transferred to CWIP on expiry of derivative financial instruments		10,056	(28,644)
		10,056	(38,700)
Total comprehensive loss for the year		(87,065)	(182,895)

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive

Director

Statement of Changes in Equity

for the year ended December 31, 2009

	Share capital	Share deposit money for ordinary shares	Hedging reserve	Accumulated Profit / (Loss)	Total
			(Rupees in thousand)		
Balance as on December 31, 2007	7,434,788	8	28,644	(9,091)	7,454,349
Proceeds from share deposit money	–	8,073,890	–	–	8,073,890
Issue of 150,000,000 ordinary shares of Rs 10 each fully paid in cash	1,500,000	(1,500,000)	–	–	–
Total comprehensive loss for the year	–	–	(38,700)	(144,195)	(182,895)
Balance as on December 31, 2008	8,934,788	6,573,898	(10,056)	(153,286)	15,345,344
Issue of 906,521,167 ordinary shares of Rs 10 each fully paid in cash	9,065,212	(9,065,212)	–	–	–
Proceeds from share deposit money	–	2,491,314	–	–	2,491,314
Cost of issuance of shares	–	–	–	(6,805)	(6,805)
Total comprehensive loss for the year	–	–	10,056	(97,121)	(87,065)
Balance as on December 31, 2009	18,000,000	–	–	(257,212)	17,742,788

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive

Director

Cash Flow Statement

for the year ended December 31, 2009

	Note	2009	2008
		(Rupees in thousand)	
Cash flows from operating activities			
Cash (used in) / generated from operations	21	(1,954,277)	715,540
Taxes paid		(11,688)	(37,049)
Staff retirement benefits paid		(2,810)	(1,118)
Net cash (used in) / generated from operating activities		(1,968,775)	677,373
Cash flows from investing activities			
Fixed capital expenditure		(13,169,336)	(24,942,506)
Finance costs paid		(3,537,559)	(422,262)
Net decrease in long-term loans and deposits		(2,751)	(3,405)
Net cash used in investing activities		(16,709,646)	(25,368,173)
Cash flows from financing activities			
Advance received against preference shares		3,898,250	–
Proceeds from share deposit money		2,491,314	8,073,890
Proceeds from long term loans		12,498,458	15,888,024
(Increase) / decrease in bills payable		(464,440)	464,440
Net cash from financing activities		18,423,582	24,426,354
Net decrease in cash and cash equivalents		(254,839)	(264,446)
Cash and cash equivalents at the beginning of the year		479,256	743,702
Cash and cash equivalents at the end of the year	16	224,417	479,256

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive **Director**

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

1. Legal status and nature of business

Fatima Fertilizer Company Limited ('The Company'), was incorporated in Pakistan on December 24, 2003 as a non-listed public company under the Companies Ordinance, 1984. It is in the process of setting-up the project at Mukhtar Garh, Sadiqabad to produce Urea, Nitro Phosphate (NP), Nitro Phosphate Potash (NPK) and Calcium Ammonium Nitrate (CAN). The registered office of the Company is in Multan. Subsequent to year end, the Company's status has changed to a listed public company by issue of 200 million ordinary shares to institutional investors and general public.

2. Basis of preparation

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by Securities and Exchange Commission of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives prevail.

2.2 Initial application of standards, amendments or an interpretation to existing standards

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Standards, amendments to published standards and interpretations that are effective in 2009 and are relevant to the Company

– IAS 1 (Revised), 'Presentation of financial statements' is effective from January 1, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the company shows all owner related changes in equity in statement of changes in equity, whereas all non-owner changes in equity are presented in other comprehensive income. Comparative information is required to be re-presented so that it is in conformity with the revised standard.

The Company has preferred to present two statements; a profit and loss account (income statement) and a second statement beginning with profit or loss and display components of other comprehensive income (statement of comprehensive income). Comparative information has also been re-presented so it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on loss for the year.

– IAS 23 (amendment), 'Borrowing costs' is effective from January 1, 2009. The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Company's current accounting policy is in compliance with this amendment, and therefore there is no impact on the Company's financial statements.

– IFRS 7, 'Financial instruments: Disclosures', is effective from January 1, 2009. IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and measurement of the Company's financial instruments. The application of IFRS 7 has resulted in additional disclosures in the Company's financial statements, however, there is no impact on loss for the year.

2.2.2 Standards, amendments to published standards and interpretations that are effective in 2009 but not relevant to the Company

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 are considered not to be relevant or to have any significant impact on the Company's financial reporting and operations.

2.2.3 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2010 or later periods, but the Company has not early adopted them:

– IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (amendment) from January 1, 2010. It is not expected to have a material impact on the Company's financial statements.

– IAS 39 (amendment); 'Cash flow hedge accounting'. This amendment provides clarification when to recognise gains or losses on hedging instruments as a reclassification adjustments in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to income statement in the period in which the hedged forecast cash flow affects income statement. The Company will apply IAS 39 (Amendment) from January 1, 2010. It is not expected to have any significant impact on the Company's financial statements.

There are a number of minor amendments in other IFRS and IAS which are part of annual improvement project published in April 2009 (not addressed above). These amendments are unlikely to have any impact on the Company's financial statements and therefore have not been analysed in detail.

3. Basis of measurement

These financial statements have been prepared under the historical cost convention except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

The Company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment and estimation involved in their application and their impact on these financial statements. Judgments and estimates are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Employee retirement benefits

The Company uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.2.

b) Useful life and residual values of property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the period if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the period for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.2 Retirement benefits

The main features of the schemes operated by the Company for its employees are as follows:

(a) Defined benefit plan - Gratuity

The Company operates a funded gratuity scheme for all employees according to the terms of employment, subject to a minimum qualifying period of service. Annual provision is made on the basis of actuarial valuation to cover obligations under the scheme for all employees eligible to gratuity benefits.

The latest actuarial valuation for gratuity scheme was carried out as at December 31, 2009. Projected unit credit method is used for valuation of the scheme, using the following significant assumptions:

– Discount rate 12 percent per annum.
– Expected rate of increase in salary level 12 percent per annum.

The Company's policy with regard to actuarial gains / losses is to follow minimum recommended approach under IAS 19 'Employee Benefits'.

(b) Accumulating compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to income statement and unallocated expenses.

Retirement benefits are payable to employees on completion of prescribed qualifying period of service under these schemes.

(c) Defined contribution plan - Provident Fund

There is an approved contributory provident fund for all employees. Equal monthly contributions are made by the Company and the employees to the fund.

4.3 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost in relation to own manufactured assets includes direct cost of materials, labour and applicable manufacturing overheads.

Depreciation on all property, plant and equipment is charged to income statement on the straight-line method so as to write off the depreciable amount of an asset over its estimated useful life at the following annual rates:

– Furniture and fixtures	10%
– Office equipment	10%
– Electrical installations and appliances	10%
– Computers	25%
– Vehicles	20%

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amounts exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income statement during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

4.4 Capital work in progress

Capital work in progress is stated at cost less any identified impairment loss.

4.5 Leases

The Company is the lessee.

4.5.1 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income statement on a straight-line basis over the lease term.

4.6 Investments

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

The investments made by the Company are classified for the purpose of measurement into the following categories:

Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortised cost using the effective yield method.

Available for sale

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which a quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology. Unrealised gains and losses arising from the changes in the fair value are included in fair value reserves in the period in which they arise.

All purchases and sales of investments are recognised on the trade date which is the date that the Company commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each balance sheet date, the Company reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognised as expense in the income statement. In respect of 'available for sale' financial assets, cumulative impairment loss less any impairment loss on that financial asset previously recognised in income statement, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

4.6.1 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the income statement.

Financial instruments carried on the balance sheet include long term loans and deposits, loans, advances, deposits, prepayments and other receivables, cash and bank balances, borrowings, derivative financial instruments, trade and other payables. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.7 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

4.8 Stores and spares

Stores and spares are valued at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Provision is made in the financial statements for obsolete and slow moving stores and spares based on management estimate.

4.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.10 Borrowings

Borrowings are initially recorded at the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Finance costs are accounted for on an accrual basis and are included in trade and other payables to the extent of the amount remaining unpaid.

4.11 Trade and other payables

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the Company.

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.12 Derivative financial instruments

These are initially recorded at cost on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as cash flow hedges.

The Company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement .

Amounts accumulated in equity are recognised in income statement in the periods when the hedged item will effect profit or loss.

4.13 Revenue recognition

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

4.14 Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses on translation are recognised in the income statement. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

4.15 Borrowing costs

Mark up, interest and other charges on borrowings are capitalized up to the date of commissioning of the related property, plant and equipment, acquired out of the proceeds of such borrowings. All other mark up, interest and other charges are charged to income statement.

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

5. Issued, subscribed and paid up capital

2009	2008		2009	2008
(Number of shares)			(Rupees in thousand)	
1,800,000,000	893,478,833	Ordinary shares of Rs 10 each fully paid in cash	18,000,000	8,934,788

The reconciliation of ordinary shares is as follows:

	2009	2008
	(Number of shares)	
Opening balance	893,478,833	743,478,833
Add: Shares issued during the year	906,521,167	150,000,000
Closing balance	1,800,000,000	893,478,833

Ordinary shares of the Company held by associated undertakings as at the year end are as follows:

	2009	2008
Pakarab Fertilizers Limited	900,000,000	355,577,696
Reliance Weaving Mills Limited	17,968,135	17,968,135
Reliance Commodities (Pvt) Limited	150,731,084	22,599,250
Fazal Cloth Mills Limited	34,387,480	21,492,175
Fatima Sugar Mills Limited	139,570,865	103,945,586
Arif Habib Securities Limited	180,000,000	112,500,000
	1,422,657,564	634,082,842

6. Advance against preference shares

This represents contribution towards the preference share capital of the company against which shares have not been issued till the balance sheet date. This includes amount of advance from Pakarab Fertilizers Limited, parent company, and Reliance Commodities (Private) Limited, an associated undertaking, amounting to Rs 3,750 million (2008: Nil) and Rs 148 million (2008: Nil) respectively. According to the terms of these preference shares, these are classifiable in the financial statements as a financial liability in accordance with the relevant requirements of International Financial Reporting Standards. However, the company considers that under the relevant requirements of Prudential Regulations of the State Bank of Pakistan these are to be considered as equity.

		2009	2008
		(Rupees in thousand)	
7. Long term loans			
These are composed of:			
Secured:			
Long Term Syndicated Loan (Senior Facility)	– note 7.1	22,971,488	18,750,401
Commercial Facility (CF)	– note 7.2	4,327,000	–
New Facility (NF)	– note 7.3	1,754,051	–
		29,052,539	18,750,401
Unsecured loans from the parent company:			
Bridge Finance (STFA)	– note 7.4	2,037,500	–
Term loan	– note 7.5	158,820	–
		2,196,320	–
		31,248,859	18,750,401
Less: Current portion shown under current liabilities		402,796	–
		30,846,063	18,750,401

7.1 Long Term Syndicated Loan (Senior Facility)

The syndicated loan (Senior Facility) has been obtained from a consortium of commercial banks / financial institutions led by National Bank of Pakistan against a facility of Rs 23,000 million to finance an integrated fertilizer complex.

It carries mark-up at the rate of 6-months Karachi Interbank Offered Rate (KIBOR) plus 3.35% per annum [Pre-Commercial Operation Date (COD)] and 6-months KIBOR plus 3.00% per annum (Post-COD). The effective rate of mark-up during the period ranged from 15.76% to 19% per annum. The principal balance of finance is repayable in 17 un-equal half-yearly installments commencing 48 months from the first disbursement date i.e. November 27, 2006. In the event, the Company fails to pay the balances on due dates, mark up is to be computed at the rate of Re 0.510 per Rs 1,000 per diem or part thereof on the balances unpaid.

7.2 Commercial Facility (CF)

The Commercial Facility (CF) has been obtained from a consortium of commercial banks / financial institutions led by National bank of Pakistan, against a facility of Rs 4,500 million to finance the project cost.

The finance carries mark-up at the rate of 6-months KIBOR plus 3.75% per annum with no floor or cap. During the period the effective rate of mark-up ranged from 16.22% to 16.41% per annum. The principal balance of finance is repayable in 17 consecutive semi-annual installments commencing the earlier of the end of 18 months from the disbursement date i.e. March 19, 2009 or the first installment payment of the Senior Facility of Rs 23,000 million. In the event, the Company fails to pay the balances on due date, mark up is to be computed at the rate of Re 0.532 per Rs 1,000 per diem or part thereof on the balances unpaid.

7.3 New Facility (NF)

The New Facility (NF) has been obtained from nine commercial banks / financial institutions individually, aggregating to Rs. 3,381 million.

The finance carries mark-up at the rate of 6-months KIBOR plus 3.75% per annum with no floor or cap. During the year the effective rate of mark-up was 16.16% per annum. The principal balance of finance is repayable in 17 consecutive semi-annual installments commencing 12 months from the disbursement date i.e. November 27, 2009.

The facility for guarantee available to the company at December 31, 2009 was Rs 200 million (2008:Nil) of which amount utilised at December 31, 2009 was Rs Nil (2008:Nil).

The facilities referred to in notes 7.1, 7.2 and 7.3 are secured by a first ranking exclusive hypothecation / equitable mortgage charge over all present and future fixed assets of the Company amounting to Rs 44,000 million, personal guarantees of the directors and pledge of shares of the Company owned by the sponsors.

The facilities referred to in notes 7.2 and 7.3 are also secured by first ranking pari-passu hypothecation of all present and future current assets of the Company amounting to Rs. 13,333 million and pledge of 51% shares of PFL.

7.4 Bridge Finance (STFA)

This represents an unsecured loan facility amounting to Rs 2,100 million obtained from Pakarab Fertilizers Limited (PFL), parent company, for the purposes of project financing. The repayment of this loan is not to exceed the repayment amount of loan facilities referred in note 7.1, 7.2 and 7.3 by more than 6.45% of the principal component of such facilities repayments.

Till such time as PFL is obligated to make repayment of the “PFL Bridge Finance STFA” under syndicated term finance agreement dated August 27, 2009 between PFL and syndicate of financial institutions (PFL Bridge Finance Institutions), the facility carries markup at 6 months KIBOR plus 2.5%, with no floor and cap payable semi-annually, on outstanding balance of such loan. Subsequently, the facility will carry markup at average borrowing cost of the parent company. Markup charged during the year on outstanding balance was 15.06%.

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

7.5 Term loan

This represents unsecured loan facility amounting to Rs 2,238 million obtained from Pakarab Fertilizers Limited, the parent company, for the purposes of project financing. The facility carries markup at the rate of average borrowing cost of the parent company. Markup charged during the year range from 14.82% to 14.53%.

The loan is repayable when the outstanding amounts under Senior Facility Agreement dated November 25, 2006, Commercial Facility Agreement dated March 6, 2009, New Facility and security agreements between the Company and institutions dated November 17, 2009 does not exceed Rs 23 billion.

		2009	2008
		(Rupees in thousand)	
8. Retirement benefits			
Gratuity	– note 8.1	30,985	18,081
Accumulating compensated absences	– note 8.2	23,508	13,794
		54,493	31,875

8.1 Gratuity

	2009	2008
The amounts recognized in the balance sheet are as follows:		
Present value of defined benefit obligation	28,801	17,431
Unrecognized actuarial losses	2,184	650
Liability as at year end	30,985	18,081
Liability as at the beginning of the year	18,081	8,618
Charge to income statement / unallocated expenditures	14,079	10,161
Payments made by the Company	(1,175)	(698)
Liability as at year end	30,985	18,081
The movement in the present value of defined benefit obligation is as follows:		
Opening present value of defined benefit obligation	17,431	7,951
Current service cost	11,464	9,366
Interest cost for the year	2,615	795
Payments made by the Company	(1,175)	(698)
Actuarial (gain) / loss	(1,534)	17
Closing present value of defined benefit obligation	28,801	17,431

The present value of defined benefit obligation and experience adjustment on obligation are as follows:

	December 31, 2009	December 31, 2008	December 31, 2007	June 30, 2007	December 31, 2006
Present value of defined benefit obligation	28,801	17,431	7,951	8,356	6,533
Experience adjustment on obligation	5%	0%	11%	-3%	1%

	2009	2008
	(Rupees in thousand)	
8.2 Accumulating compensated absences		
Opening balance	13,794	3,069
Add: Provision for the year	11,350	11,145
	25,144	14,214
Less: Payments made during the year	1,636	420
Closing balance	23,508	13,794

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

			2009	2008
			(Rupees in thousand)	
9	**Trade and other payables**			
	Trade creditors		1,326,334	1,619,477
	Accrued liabilities		28,704	92,033
	Due to related parties – associated undertakings	– note 9.1	–	11,638
	Withholding tax		243,340	81,313
	Payable to provident fund	– note 9.2	46,168	19,725
	Mark–up accrued on long term loan		2,596,001	1,532,468
	Others payables		17,595	134,173
			4,258,142	3,490,827

		2009	2008
9.1	**Due to related parties – associated undertakings**		
	Associated undertakings		
	Fatima Sugar Mills Limited	–	10,952
	Reliance Weaving Mills Limited	–	677
	Fazal Cloth Mills Limited	–	9
		–	11,638
9.2	**Payable to provident fund**		
	Opening balance	19,725	4,159
	Contribution during the year		
	– Employers contribution	12,320	8,282
	– Employees contribution	12,320	8,282
		24,640	16,564
	Mark–up accrued during the year	4,176	–
		48,541	20,723
	Payments made during the year	(2,373)	(998)
	Closing balance	46,168	19,725

This represents amount payable to provident fund by the Company. Mark-up on contribution is charged at the rate of 10% per annum.

10. Contingencies and commitments

10.1 Contingencies

Post dated cheques not provided for in the financial statements, furnished by the Company to the Collector of Customs to cover excess import levies on plant and machinery amounting to Rs 12.604 million (2008: Rs 129.612 million).

10.2 Commitments in respect of

(i) Contracts for capital expenditure Rs 3,000.458 million (2008: Rs 8,008.692 million).

(ii) Contracts for other than capital expenditure Rs 26.936 million (2008: Rs 26.392 million).

(iii) The amount of future payments under non-cancellable operating leases and the period in which these payments will become due are as follows:

	2009	2008
	(Rupees in thousand)	
Not later than one year	731	1,726

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

11. Property, plant and equipment

	2009						
	Cost as at December 31, 2008	Additions/ (deletions) during the year	Cost as at December 31, 2009	Accumulated depreciation as at December 31, 2008	Depreciation charge/ (deletions) during the year	Accumulated depreciation as at December 31, 2009	Book value as at December 31, 2009
	(Rupees in thousand)						
Freehold land	341,172	19,872	361,044	–	–	–	361,044
Furniture and fixtures	13,901	10,161	24,062	1,701	1,970	3,671	20,391
Office equipment	9,158	753	9,886	1,174	944	2,115	7,771
		(25)			(3)		
Electrical installations and appliances	186,031	78,865	264,896	5,682	22,829	28,511	236,385
Computers	27,171	10,046	37,217	7,802	7,833	15,635	21,582
Vehicles	55,464	7,462	62,325	13,412	11,627	24,558	37,767
		(601)			(481)		
	632,897	127,159	759,430	29,771	45,203	74,490	684,940
		(626)			(484)		

	2008						
	Cost as at December 31, 2007	Additions/ (deletions) during the year	Cost as at December 31, 2008	Accumulated depreciation as at December 31, 2007	Depreciation charge/ (deletions) during the year	Accumulated depreciation as at December 31, 2008	Book value as at December 31, 2008
	(Rupees in thousand)						
Freehold land	330,966	10,206	341,172	–	–	–	341,172
Furniture and fixtures	8,048	5,853	13,901	651	1,050	1,701	12,200
Office equipment	4,345	4,813	9,158	410	764	1,174	7,984
Electrical installations and appliances	4,570	181,461	186,031	527	5,155	5,682	180,349
Computers	14,593	12,578	27,171	2,572	5,230	7,802	19,369
Vehicles	24,580	31,814	55,464	5,845	8,312	13,412	42,052
		(930)			(745)		
	387,102	246,725	632,897	10,005	20,511	29,771	603,126
		(930)			(745)		

		2009	2008
		(Rupees in thousand)	
11.1 The depreciation charge for the year has been allocated as follows:			
Unallocated expenditures	– note 12.1	28,744	9,025
Administrative expenses	– note 17	16,458	11,486
		45,202	20,511

11.2 Disposal of property, plant and equipment

Detail of property, plant and equipment disposed off during the year is as follows:

2009

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		(Rupees in thousand)				
Office equipment	Outsiders					
	M/s EFU General Insurance Limited	25	3	22	22	Insurance Claim
Vehicles	Employees					
	Mr. Muhammad Shahzad	601	481	120	120	Company policy
		626	484	142	142	

2008

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		(Rupees in thousand)				
Vehicles	Employees					
	Mr. Muhammad Younus	930	745	185	185	Company policy
		930	745	185	185	

		2009	2008
		(Rupees in thousand)	
12. Capital work in progress			
12.1 Unallocated expenditure			
Salaries, wages and other benefits	– note 12.1.1	1,092,166	476,719
Travelling and conveyance		137,588	86,952
Utilities		648,670	41,792
Legal and professional charges		47,126	27,896
Commitment charges - long term loan		96,401	90,287
Loan arrangement, agency and monitoring fee		458,256	334,786
Technical consultancy		51,760	44,284
Project management services		102,069	98,180
Project insurance		271,707	162,949
Depreciation		45,980	17,236
Mark up on :			
– long term loans		6,430,875	2,065,793
– contribution by sponsors and associated undertakings	– note 12.1.2	369,554	141,038
		6,800,429	2,206,831
General expenses		476,773	261,044
		10,228,925	3,848,956

Notes to and forming part of the Financial Statements
for the year ended December 31, 2009

		2009	2008
		(Rupees in thousand)	
12.1.1	**Salaries, wages and other benefits**		
	Salaries, wages and other benefits include following in respect of retirement benefits:		
	Gratuity		
	Current service cost	10,559	8,454
	Interest cost for the year	2,409	718
		12,968	9,172

In addition to above, salaries, wages and other benefits include Rs 10.454 million (2008: Rs 9.921 million) and Rs 11.143 million (2008: Rs 7.522 million) in respect of accumulating compensated absences and provident fund contribution by the Company.

12.1.2 Contribution by sponsors and associated undertakings

As per mutual understanding reached amongst the directors, associated companies and the Company, Reliance Weaving Mills Limited, Reliance Commodities (Private) Limited and Fatima Sugar Mills has charged markup on share deposit money made from October 2006 to March 2009, ranging from 10.72% to 16.77% per annum, amounting to Rs 12.602 million, Rs 131.58 million and Rs 83.382 million respectively. The markup of Reliance Commodities (Private) Limited and Fatima Sugar Mills Limited has been accrued in the financial statements and is included in share deposit money.

12.1.3 Unallocated expenditure will be allocated to civil works and plant and machinery upon commencement of commercial operations.

			2009	2008
			(Rupees in thousand)	
12.2	**Advances**			
	Freehold land		63,512	14,455
	Civil works		64,010	75,322
	Plant and machinery		551,571	1,460,874
	ERP software		7,180	1,119
			686,273	1,551,770
13.	**Long term loans and deposits**			
	Loan to employees – considered good	– note 13.1	4,449	28
	Security deposits		5,380	5,399
	Less: receivable within one year			
	Loan to employees – considered good	– note 15	1,679	28
			8,150	5,399

13.1 This represents loans to employees for purchase of motor vehicles. These loans are secured by registration of motor vehicles in the name of the Company.

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

			2009	2008
			(Rupees in thousand)	
14.	**Stores and spares**			
	Stores		272,146	2,405
	Spares		457,661	–
	Catalyst	– note 14.1	412,991	–
			1,142,798	2405

Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

14.1 This represents catalyst to be used in Ammonia and Nitric acid plant.

			2009	2008
			(Rupees in thousand)	
15.	**Loans, advances, deposits, prepayments and other receivables**			
	Current portion of long term loans to employees	– note 13	1,679	28
	Advances – considered good			
	– to employees		3,414	4,607
	– to suppliers		625,762	112,291
	– against underwriting agreement		–	1,384
			629,176	118,282
	Due from related parties – unsecured	– note 15.1	–	150
	Prepayments		31,191	30,032
	Agency fee recoverable		2,000	2,000
	Margin deposits held by banks against letters of credit		3,848	5
	Recoverable from Government			
	– Sales tax		107,555	107,555
	– Income tax recoverable		55,156	43,468
			162,711	151,023
	Other receivable			
	– considered good		18,633	109,232
	– considered doubtful		5,143	–
			23,776	109,232
	Provision for doubtful receivables		(5,143)	–
			849,238	410,752
	15.1 Due from related parties – unsecured			
	Associated undertakings			
	Reliance Commodities (Private) Limited		–	150
			–	150

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

		2009	2008
		(Rupees in thousand)	
16. Cash and bank balances			
At banks on:			
– saving accounts	– note 16.1	1,901	1,497
– current accounts [including USD 0.92 (2008: USD 8,958) and Euro 380.77 (2008: Euro 714,889)]		221,568	476,940
		223,469	478,437
In hand		948	819
		224,417	479,256

16.1 The balances in saving accounts bear mark-up at 5% per annum.

		2009	2008
17. Administrative expenses			
Salaries, wages and other benefits	– note 17.1	52,466	32,602
Travelling and conveyance		6,260	3,837
Vehicles' running and maintenance		1,296	1,432
Insurance expenses		39	457
Communication and postage		2,865	2,431
Printing and stationery		2,112	1,613
Rent, rates and taxes	– note 17.2	345	345
Fees and subscription		766	503
Entertainment expenses		449	369
Utilities		260	847
Depreciation	– note 11.1	16,458	11,486
Repair and maintenance		448	359
Audit fee		1,200	750
Advances written off		1,384	–
Provision against doubtful receivables		5,143	–
Others		4,714	877
		96,205	57,908

17.1 Salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of retirement benefits:

	2009	2008
Gratuity		
Current service cost	905	912
Interest cost for the year	206	77
	1,111	989

In addition to above, salaries, wages and other benefits include Rs 0.896 million (2008: Rs 1.124 million) and Rs 1.177 million (2008: Rs 0.76 million) in respect of accumulating compensated absences and provident fund contribution by the Company.

17.2 Rent, rates and taxes include operating lease rentals.

	2009	2008
	(Rupees in thousand)	
18. Finance costs		
Interest charged on provident fund	4,176	–
Loss on derivative financial instruments	–	84,087
Bank charges	3,318	2,256
	7,494	86,343
19. Other operating income		
Gain on derivative financial instruments	3,882	–
Exchange gain	2,696	56
	6,578	56

20 Loss per share

20.1 Basic loss per share

		2009	2008
Loss for the year	Rupees in thousand	(97,121)	(144,195)
Weighted average number of ordinary shares issued and subscribed at the end of the year	Number of shares	1,144,324,416	837,588,422
Loss per share	Rupees	(0.08)	(0.17)

20.2 Diluted loss per share

A diluted earning per share has not been presented as the Company does not have any convertible instruments in issue as at December 31, 2009 and December 31, 2008 which would have any effect on the loss per share if the option to convert is exercised.

	2009	2008
	(Rupees in thousand)	
21. Cash (used in) / generated from operations		
Loss before tax	(97,121)	(144,195)
Adjustments for :		
– Retirement benefits accrued	3,740	2,213
– Depreciation on property, plant and equipment	16,458	11,486
– Finance costs	7,494	86,343
– Provision for doubtful advances	5,143	–
– Advances written off	1,384	–
– Other operating income	(6,578)	(56)
Loss before working capital changes	(69,480)	(44,209)
Effect on cash flow due to working capital changes		
– Increase in loans, advances, deposits, prepayments and other receivables	(433,325)	(248,253)
– Increase in stores and spares	(1,140,393)	(2,405)
– (Decrease) /increase in trade and other payables	(311,079)	1,010,407
	(1,884,797)	759,749
	(1,954,277)	715,540

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

22. Transactions with related parties

The related parties comprise the associated undertakings, directors and other key management personnel of the Company. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, and remuneration of directors and key management personnel is disclosed in note 24. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of transaction	2009	2008
		(Rupees in thousand)	
– Parent company			
Pakarab Fertilizers Limited	Disbursement of loan	2,196,320	–
	Interest expense	115,710	–
– Associated companies			
Fatima Sugar Mills Limited	Interest expense	1,373	–

23. Donations

None of the directors and their spouses had any interest in any of the donees during the year.

24. Remuneration of Chief Executive, Directors and Executives

24.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, full time working Directors and Executives of the Company are as follows:

	Directors		Executives	
	2009	2008	2009	2008
	(Rupees in thousand)			
Short term employee benefits				
Managerial remuneration	3,027	2,299	100,440	73,188
Housing	1,362	1,034	45,198	32,935
Utilities	303	230	10,044	7,319
Project allowance	605	460	20,088	14,638
Site allowance	–	–	14,034	10,044
LFA	504	383	16,889	12,198
Housing subsidy allowance	–	–	138	378
Others	–	–	8,945	6,960
	5,801	4,406	215,776	157,660
Post employment benefits				
Contribution to provident, gratuity and pension funds	402	383	13,812	10,749
Other long term benefits				
Accumulating compensated absences	180	189	4,687	4,933
	6,383	4,978	234,275	173,342
Number of persons	1	1	90	71

24.2 The Chief Executive of the Company is not taking any remuneration and thus remuneration of the Chief Executive is not included in the above note.

25. Financial risk management

25.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (The Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of these policies.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Euro and Great Britain pound (GBP). Currently, the Company's foreign exchange risk exposure is restricted to bank balances, the amounts receivable / payable from / to the foreign entities. The Company's exposure to currency risk was as follows:

	2009	2008
	(In thousand)	
Cash at banks – USD	–	9
Trade and other payables	(7,440)	(9,985)
Net exposure – USD	(7,440)	(9,976)
Cash at banks – Euro	–	715
Trade and other payables – Euro	(688)	(76)
Net exposure – Euro	(688)	639
Trade and other payables – GBP	–	(122)
The following significant exchange rates were applied during the year:		
Rupees per USD		
Average rate	81.46	69.62
Reporting date rate	84.30	78.90
Rupees per Euro		
Average rate	113.42	101.82
Reporting date rate	121.10	111.11

If the functional currency, at reporting date, had fluctuated by 5% against the USD and Euro with all other variables held constant, the impact on loss after taxation for the year would have been Rs 35,526 in thousands (2008: Rs 43,596 in thousands), respectively higher / lower, mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity price risk since there are no investments in equity securities. The Company is also not exposed to commodity price risk since it has a diverse portfolio of commodity suppliers.

(iii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk.

At the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments was:

	2009	2008
	(Rupees in thousand)	
Fixed rate instruments		
Financial assets		
Bank balances - saving accounts	1,901	1,497
Floating rate instruments		
Financial liabilities		
Advance against preference shares	3,898,250	–
Long term loans	30,846,063	18,750,401
Current maturity of long term loans	402,796	–

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect income statement of the Company.

Cash flow sensitivity analysis for variable rate instruments

Since, the Company has not yet commenced commercial operations and is in the construction and installation phase of its fertilizer complex, the mark-up on long term loans is currently capitalised in capital work-in-progress, hence, any fluctuation in interest rates with all other variables held constant, would have no effect on the income statement of the Company.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from deposits with banks and other receivables. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2009	2008
	(Rupees in thousand)	
Long term loans and deposits	8,150	5,399
Loans, advances, deposits and other receivables	679,434	225,062
Bank balances	223,469	478,437
	911,053	708,898

The credit quality of major financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating Short term	Long term	Rating Agency	2009	2008
				(Rupees in thousand)	
Allied Bank Limited	A–1+	AA	PACRA	11,559	652
Arif Habib Bank Limited	A–2	A	JCR–VIS	8,106	–
Askari Commercial Bank	A–1+	AA	PACRA	1,738	11,488
Bank Alfalah Limited	A–1+	AA	PACRA	150	–
Bank Islami	A–1	A	PACRA	10	–
Faysal Bank Limited	A–1+	AA	PACRA	1,901	445
Habib Bank Limited	A–1+	AA+	JCR–VIS	568	9,985
Habib Metropolitan Bank	A–1+	AA+	PACRA	1,805	82,486
Muslim Commercial Bank	A–1+	AA+	PACRA	174	193
Meezan Bank Limited	A–1	A+	PACRA	5	5
National Bank Of Pakistan	A–1+	AAA	PACRA	196,398	357,694
Royal Bank Of Scotland	A–1+	AA	JCR–VIS	20	8,631
Silk Bank Limited	A–3	A–	JCR–VIS	29	2,135
Soneri Bank Limited	A–1+	AA–	PACRA	3	4
United Bank Limited	A–1+	AA+	JCR–VIS	1,003	4,719
				223,469	478,437

Due to the company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2009, the Company has Rs 1,828 million unutilised borrowing limits from financial institutions and Rs 224.417 million cash and bank balances. In spite the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk is low as the Company has not yet commenced commercial operations.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees in thousand)			
Advance against preference shares	3,898,250	–	3,898,250	–
Long term loans	30,846,063	402,796	10,472,687	19,970,580
Trade and other payables	4,258,142	4,258,142	–	–
	39,002,455	4,660,938	14,370,937	19,970,580

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

The following are the contractual maturities of financial liabilities as at December 31, 2008:

	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long term loans	18,750,401	–	12,132,612	6,617,789
Bills payable	464,440	–	464,440	–
Trade and other payables	3,490,827	3,490,827	–	–
Derivative financial instruments	14,861	14,861	–	–
	22,720,529	3,505,688	12,597,052	6,617,789

25.2 Fair values of financial assets and liabilities

The carrying amounts of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

	2009	2008
	(Rupees in thousand)	
25.3 Financial instruments by categories		
Financial assets as per balance sheet		
Long term loans and deposits	8,150	5,399
Loans, advances, deposits and other receivables	679,434	225,062
Cash and bank balances	224,417	479,256
	912,001	709,717
Financial liabilities as per balance sheet		
Advance against preference shares	3,898,250	–
Long term loans	30,846,063	18,750,401
Bills payable	–	464,440
Trade and other payables	4,258,142	3,490,827
Derivative financial instruments	–	14,861
	39,002,455	22,720,529

25.4 Capital risk management

The Company is in set up phase, therefore, its objectives when managing capital are to safeguard Company's ability to continue as a going concern and to finance the project maintaining an optimal capital structure as required by the lenders. Consistent with others in the industry and the requirements of the lenders, the Company monitors the capital structure on the basis of debt to equity ratio.

The company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may, for example, issue new ordinary/preference shares, or obtain/repay loans.

26. Rates of exchange

Foreign currency liabilities have been translated into Rupees at USD 1.1862 (2008: 1.2674) and EURO 0.8258 (2008: 0.9000), equal to Rs 100.

27. Date of authorization for issue

These financial statements were authorized for issue on April 09, 2010 by the Board of Directors of the Company.

Notes to and forming part of the Financial Statements

for the year ended December 31, 2009

28. Events occurring after the balance sheet date

28.1 In January 2010, the Company has issued 400 million Non-Voting, Non-Participatory, Convertible and Cumulative preference shares at the rate of Rs 10 per share to Pakarab Fertilizers Company Limited and Reliance Commodities (Private) Limited. Annualized cumulative dividends will be paid at 6-months KIBOR plus 3.0% p.a.

The Company may, at its option, redeem the preference shares at any time by giving at least 60 days prior written notice to the preference shares holders. The Company shall create a Sinking Fund reserve account from the profits of the Company and any payments on accounts of the call option will only be made from the Sinking Fund reserve account.

Preference shares holders will have the option to serve a notice to convert the preference shares into ordinary shares of the Company by serving the Conversion Notice after the end of the two years from the Issue Date of preference shares at 20% discount on fair value of the ordinary share at the time of conversion.

28.2 Subsequent to year end, the company has obtained listing status on Karachi, Lahore and Islamabad Stock Exchanges by issue of 200 million ordinary shares to institutional investors and general public.

29. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant re-arrangements have been made.

Chief Executive **Director**

Notes

Form of Proxy
7th Annual General Meeting

I/We ____

of ____

being a member(s) of Fatima Fertilizer Company Limited hold ______________________

Ordinary Shares hereby appoint Mr / Mrs / Miss ______________________

of ____________________ or falling him / her ______________________

of ____________________ as my / our proxy in my / our absence to attend and vote for me / us and on my / our

behalf at the 37th Annual General Meeting of the Company to be held on April 30, 2010 and / or any adjournment thereof.

As witness my/our hand/seal this ____________________ day of ____________________ April 2010.

Signed by ____

in the presence of ____

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Signature on
Five Rupees
Revenue Stamp

The Signature should agree with the specimen registered with the Company

IMPORTANT:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, 2nd Floor, Trust Plaza, L.M.Q. Road, Multan not less than 48 hours before the time of holding the meeting.
2. If a member appoints more than one proxy and more than one instruments of proxies are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
3. For CDC Account Holders / Corporate Entities

In addition to the above the following requirements have to be met.

(i) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.

(ii) The proxy shall produce his original CNIC or original passport at the time of the meeting.

(iii) In case of a corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier alongwith proxy form to the Company).

AFFIX
CORRECT
POSTAGE

Company Secretary
FATIMA FERTILIZER COMPANY LIMITED
2nd Floor, Trust Plaza, L.M.Q. Road,
Multan.


FATIMA

Fatima Fertilizer Company Limited

2nd Floor, Trust Plaza, L.M.Q. Road,

Multan - Pakistan.

Tel: +92 - 61 451 2031

Fax: +92 - 61 - 451 1677, 458 4288

E-mail: mail@fatima-group.com

Photography, Designing & Printing
by VANTAGE Ph: 92 42 35765001-5